HOUSING MARKET OUTLOOK

Gatineau

Canada Mortgage and Housing Corporation

www.cmhc.ca

SPRING-SUMMER 2005

Downturn in sight

Economic fundamentals decline

After several good years in the residential construction sector, economic and demographic conditions have now come together to cool down the housing market.

Given the almost full employment situation in Canada, jobs will grow at the same pace as the population. Last year, the housing market benefited from the vigorous labour market conditions that prevailed in 2002-2003. With the slower employment growth since then, real estate will be affected, and the Gatineau area will be no exception.

On the financial markets, CMHC anticipates that the mortgage rates will rise moderately in 2005 and 2006. The posted rates for one-year, three-year and five-year closed mortgages should stay low and go up by around 50 basis points, this year and next year. We are forecasting that, in 2005, these rates will range from 4.50 per cent to 5.50 per cent, from 5.50 per cent to 6.50 per cent and from 5.75 per cent to 6.75 per cent, respectively.

The expected rise in interest rates will therefore have an impact on the Canadian housing market, but without creating too much of a stir. Since consumers are increasingly in debt, a significant increase in rates could have a considerable impact on their budget. Fortunately, mortgage rates will remain low despite the rise and consequently bring about a commendable level of activity.

At the provincial level, several factors are limiting economic growth. The notable appreciation of the Canadian dollar is a significant one, as Quebec has a large proportion of jobs in the manufacturing sub-sectors that were directly affected by the drop in exports. As a result, in 2005, Quebec's GDP growth (+2.7 per cent) will be lower than Canada's (+3.0 per cent).

The job losses shook the confidence of Quebec consumers in the economy. Even if this confidence remains at a high level, it is starting to run out of steam. In the first quarter of 2005, according to the Conference Board of Canada survey, 58 per cent of respondents thought that it was a good time to make an outlay, compared to 63 per cent at the same time last year.

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HOME TO CANADIANS

Closer to the area under review, we are forecasting that job creation will be more modest than what the Gatineau area has seen, on average, in the last five years. Already, in the first quarter of 2005, full-time employment registered a first decrease, after two and a half years of continuous growth.

As for migration, the Outaouais area is attracting fewer new households than before. For example, according to the latest interregional migration data from the Institut de la statistique du Québec (ISQ), the net migration level in the Outaouais area was half as high in 2003-2004 as it was during the years from 2000 to 2003.

In sum, the economic conditions are pointing to a less prosperous period than what we have seen in recent years. Still, when placed in a broader historical context, this period remains good.

After the peak, resales begin a slow downward course

After having reached a peak in 2003, with just under 4,000 transactions, the resale market will decline over the next two years. The number of properties sold through the S.I.A.®/ MLS® even decreased significantly in the last quarter of 2004, and the total for the year fell slightly (-1 per cent). Since the economic conditions discussed above are relatively good, the decline will take place smoothly, as sales should attain 3,700 units in 2005 (-6 per cent) and 3,500 units in 2006 (-5 per cent).

The lure of gain will stimulate the supply. This is already apparent, as the number of new listings jumped up by 23 per cent at the end of 2004. Many homeowners will still want to take advantage of the attractive prices over the coming months and put their homes up for sale. This phenomenon, combined with a decrease in sales, will result in a significant increase in active listings in 2005 (+24 per cent) and 2006 (+20 per cent).

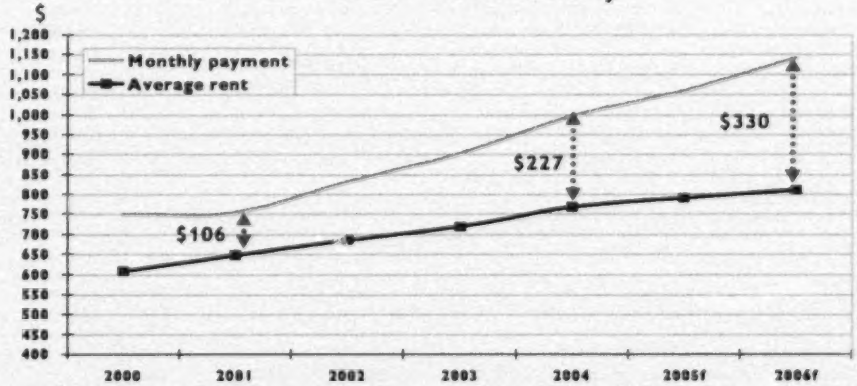
The high prices, which will stimulate the supply, will however cool down the enthusiasm of buyers. But the price increase will be more modest starting in 2005 (+6 per cent). Consumers are no longer prepared to follow the pace that had been imposed on them in recent years. Negotiations may therefore last longer, which will cause many sellers to reconsider their asking prices or wait longer before selling.

We are already seeing signs of a decrease in the negotiating power of sellers, as there were 6 sellers per buyer in the third quarter of 2004, followed by 7 in the quarter after that, while this number had stayed between 3 and 5 during the previous four years. It should be pointed out that the market is considered to be balanced when there are around 10 sellers for every buyer.

Based on the changes in the average selling price and the mortgage rate for a five-year term, it can be seen that the gap is widening between the rent for a three-bedroom unit and the monthly mortgage payment. This gap went from $106 in 2001, in favour of the rent, to $227 in 2004 (monthly payment on a 95% loan, amortized over 25 years). It is expected that the difference between renting and owning will reach $268 in 2005 and $330 in 2006. The increase in prices, combined with the rise in mortgage rates, will consequently make homeownership more and more costly.

Another factor to consider is the price difference between the two sides of the Ottawa River. In fact, it may more advantageous for some households to stay in Ontario, from a tax standpoint. However, when the price gap gets very wide, this can change the deal. In 2002, for example, the average selling price in the Ottawa-Carleton area was 78 per cent higher than in the Outaouais area (according to data from the Canadian Real Estate Association). But, with prices having risen more rapidly in Gatineau, the gap narrowed to 58 per cent in 2004. This smaller gap will therefore incite fewer Ontario residents to buy on the other side of the river, which will shrink the pool of potential buyers for the Gatineau area.

Homeownership: More and More Costly



Sources: CIO (CMHC compilation), CMHC forecasts

Note: The monthly mortgage payment is based on the average MLS selling price, a 95% loan and the mortgage rate in effect for a five-year term. The rent is for a three-bedroom unit.

Household formation will set the tone for construction

The table is set for construction to be more in line with household formation. In fact, Gatineau residents have more choice for their housing, on all markets. First, it is slightly easier to find a rental dwelling, as CMHC enumerated nearly twice as many vacant apartments at the time of the October 2004 survey as the year before. Likewise, households who want to access homeownership or change homes now have more choice, given the significant increase in the number of "For Sale" signs on the territory. It should not be forgotten, either, that the arrival of fewer new households on the territory is also reducing the need for new constructions.

In this context, CMHC estimates that 2,700 housing units should be started in 2005 and 2,400 next year. These forecasts are consistent with the ISQ household formation forecasts, which call for an average increase of 2,566 households per year in 2005 and 2006. Despite this decrease in housing construction, the level of activity is still commendable, as the average for the last 20 years is 2,214 housing starts annually.

In the case of freehold dwellings, the price difference between a new home and an existing home went back up (12 per cent - 13 per cent) after having bottomed out in 2003 (4 per cent - 7 per cent). This increase will give a slight edge to the resale market, to the detriment of the new home market. As a result, 1,800 new freehold homes will be started in 2005 (-11 per cent), and another 1,700 will get under way in 2006 (-6 per cent).

As for condominiums, 600 new units will be started in 2005 (-26 per cent). Next year, just over 400 more are anticipated. Recent data on condominium absorption suggests that, in the short term, the popularity of this type of housing may have reached its peak. In particular, condominium apartments will be less in demand in the Gatineau area, while condominium row homes should maintain their appeal.

On the rental market, construction will get under way on some 300 new apartments by the end of the year (-26 per cent). With vacant units less scarce, demand for new rental units is declining.

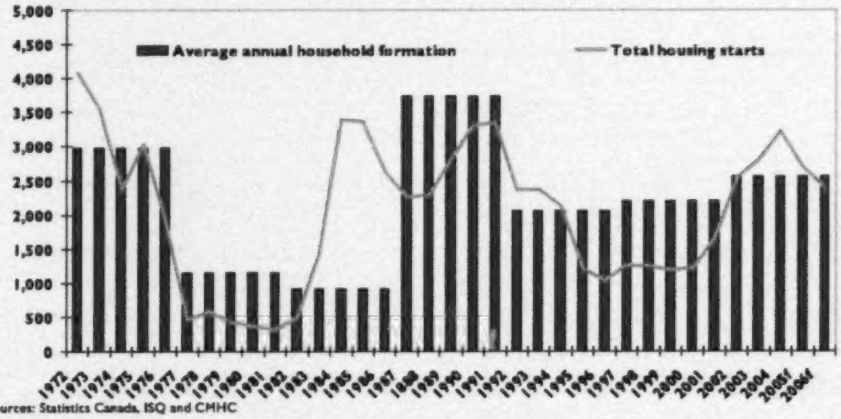
More "For Rent" signs pop up

The strong homeownership trend in recent years and the increase in rental housing starts will have overcome the scarcity of apartments for rent in Gatineau.

After having climbed from 0.5 per cent in 2002 to 2.1 per cent in 2004, the vacancy rate should continue to rise, but less rapidly over the coming years. There will still be many households who will be accessing homeownership, but the higher prices will slow their momentum. As a result, the proportion of unoccupied dwellings should reach 3.0 per cent by 2006.

Since fewer new, often more expensive, apartments are being added to the rental housing stock, rents will be rising less rapidly. In addition, since it will be easier to find dwellings, tenants will be able to "shop around" more for their apartments, and landlords will then have less room to raise the rents. We are forecasting that the average rent will rise by 3.0 per cent in 2005 and by 2.5 per cent in 2006. It should be specified that this is a measure of the changes in rents and not of the average variation in the amounts entered on the leases.

Housing Starts in Line with Household Formation in 2005-2006



Sources: Statistics Canada, ISQ and CMHC
f: forecasts

Forecast Summary
Gatineau Metropolitan Area
Spring-Summer 2005

	2003	2004	2005f	2006f	2004/2005	2005/2006
RESALE MARKET [1]						
MLS® sales						
Total	3,982	3,930	3,700	3,500	-6 %	-5 %
Freehold	3,177	3,202	3,100	3,000	-3 %	-3 %
Condominium	465	435	400	350	-8 %	-13 %
Plex (2 to 5 units)	340	293	200	150	-32 %	-25 %
Active MLS® listings						
Total	1,332	1,628	2,000	2,400	23 %	20 %
Freehold	1,064	1,277	1,440	1,500	13 %	4 %
Condominium	135	218	290	325	33 %	12 %
Plex (2 to 5 units)	133	133	135	135	2 %	0 %
Average MLS® price ($)						
Total	138,050	155,099	165,000	172,000	6 %	4 %
Freehold	143,281	160,371	170,000	176,000	6 %	4 %
Condominium	104,009	111,802	115,000	117,000	3 %	2 %
Plex (2 to 5 units)	135,843	162,035	170,000	175,000	5 %	3 %
NEW HOME MARKET						
Starts						
Total	2,801	3,227	2,700	2,400	-16 %	-11 %
Freehold	1,885	2,015	1,800	1,700	-11 %	-6 %
Condominium	209	806	600	425	-26 %	-29 %
Rental	707	406	300	275	-26 %	-8 %
Average price ($)						
Detached houses	177,491	196,088	207,000	217,000	6 %	5 %
Semi-detached houses	118,252	128,743	135,000	140,000	5 %	4 %
RENTAL MARKET (%)						
Vacancy rate (October)	1.2	2.1	2.5	3.0	--	--
Change in rents (2-bedroom)	6.7	3.8	3.0	2.5	--	--
ECONOMIC OVERVIEW						
Mortgage rate - 1-year (%)	4.8	4.6	5.0	5.6	--	--
Mortgage rate - 5-year (%)	6.4	6.2	6.3	6.7	--	--
Job creation or loss	8,675	3,000	2,800	2,900	--	--
Unemployment rate (%)	6.9	6.5	6.7	7.0	--	--

[1] : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Outaouais Real estate Board. Data could differ from those published previously.

f : CMHC forecasts

Sources: CMHC, OREB and Statistics Canada

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